



A STUDY ON VARIOUS SCHEMES FOR MSMEs: WITH SPECIAL REFERENCE TO SIDBI

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ABSTRACT

The Micro, Small and Medium Enterprises (MSME) sector is an important pillar of the Indian economy by way for creating employment for about 73 million persons through 31 million units, manufacturing more than 6,000 products, contributing about 44% to manufacturing output and about 40% of exports, directly and indirectly. The Small Industries Development Bank of India (SIDBI) is as an apex and the principal financial institution for promotion, financing and development of the Micro, Small and Medium Enterprises (MSME) sector and thus coordinates of the functions of other institutions engaged in similar activities. The SIDBI at the apex level supports the MSME sector to gain the needed strength and has introduced various schemes and initiatives to meet the varied needs of the sector. Hence in the present paper there is a detail study of various schemes which are provided by SIDBI for the development of MSMEs.

Keywords: MSME, Credit Rating, E-discounting



INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector is an important pillar of the Indian economy by way for creating employment for about 73 million persons through 31 million units, manufacturing more than 6,000 products, contributing about 44% to manufacturing output and about 40% of exports, directly and indirectly.

In 2006, the Government of India enacted Micro, Small & Medium Enterprises Development Act so as to facilitate the promotion, development and to enhance the competitiveness of the Small and Medium Enterprise sector. As under the act these enterprises have been classified into three categories viz. micro, small and medium enterprises. The enterprises have been divided into these categories on the basis of the investment made by such enterprises. The investment limits specified under the act are different for manufacturing sector and service sector enterprises. In manufacturing sector, an enterprise with investment in plant and machinery not exceeding Rs. 25 lac is classified as micro enterprise, investment of more than Rs 25 lac but not exceeding Rs 5 crore is classified as small enterprise, and with investment of more than Rs 5 crore but not exceeding Rs 10 crore is classified as medium enterprises. However, in service sector an enterprise with investment in equipment not exceeding Rs. 10 lac is classified as micro enterprise, investment of more than Rs 10 lac but not exceeding Rs 2 crore is classified as small enterprise, and with investment of more than Rs 2 crore but not exceeding Rs 5 crore is classified as medium enterprises. Thus, the investment limits have been relatively higher for the enterprises in manufacturing sector as compared to that in service sector as specified for the micro, small and medium enterprises. The Small Industries Development Bank of India (SIDBI) is as an apex and the principal financial institution for promotion, financing and development of the Micro, Small and Medium Enterprises (MSME) sector and thus coordinates of the functions of other institutions engaged in similar activities. The SIDBI at the apex level supports the MSME sector to gain the needed strength and has introduced various schemes and initiatives to meet the varied needs of the sector.

Table 1 : Performance of MSMEs

Years	Total MSMEs (in lakh Nos)	Fixed Investment (crore)	Production (crore)(Current price)	Employment (lakh persons)
2008-09	285.16	6,21,753	8,80,805	659.35
2009-10	298.08	6,93,835	9,82,919	695.38
2010-11	311.52	7,73,487	10,95,758	732.17



Source : Annual Report FY 2011-12, Ministry of MSME, Govt. of India

Above table clearly depict the importance of MSMEs. Total Number of MSMEs increasing year by year, similarly production also increased. MSMEs play a vital role in providing employment.

MSMEs provided employment to 732.17 Lakh people during 2010-11.

SCHEMES OF SIDBI FOR MSMES

The Small Industries Development Bank of India (SIDBI) provides various financial and non financial assistance to MSMEs. Following are some important schemes for MSMEs:

1. Flexible Assistance for Capital Expenditure (FACE): MSMEs felt the need for longer term repayment and flexible repayment for different components of project cost depending upon the nature of investment and economic life of the asset. To meet this need of MSMEs, SIDBI has launched a new scheme, viz. Flexible Assistance for Capital Expenditure with separate repayment schedules for different components of the project. Further, the interest rate for each component would also be based on its tenure. MSMEs would, thus, have greater flexibility in repayments within one single project.

2. NSE Trade Receivables Engine for E-discounting in association with SIDBI (NTREES) -SIDBI, along with National Stock Exchange (NSE), took an initiative in 2009 for setting up an electronic platform for discounting of MSME receivables named as NTREES. Operations on the platform are done under Real Time Gross Settlement basis and all the participants are being provided with system generated passwords for accessing the platform. As on March 31, 2012, 428 MSME vendors have registered themselves on the platform and total of 18,161 invoices have been discounted for Rs.638.27 crore.

3. Direct MSME Credit- SIDBI also provides direct credit to MSMEs mainly to supplement and complement the efforts of banks and FIs in providing credit to the sector. Direct lending is primarily where gaps exist or in clusters or in niche areas through product and process innovations. During FY 2011-12, SIDBI extended direct credit of Rs.15,049 crore to MSMEs registering a growth of 17%. One of the major components of direct credit, constituting 72%, is through MSME Receivable Financing, which addresses one of the important gaps of delayed payment. Further, to address the huge shortfall in availability of equity capital to MSMEs, SIDBI has been extending risk / venture capital assistance both directly and indirectly to MSMEs. During FY 2011- 12, SIDBI extended equity related assistance of Rs. 152 crore. Cumulatively, SIDBI has extended assistance of Rs. 386 crore benefitting 236 MSMEs under this scheme.



4. Set up of Risk Capital Fund: Pursuant to the announcement made in the Union Budget 2008-09, the Risk Capital Fund was created by SIDBI to provide Risk Capital assistance to MSMEs in the form of Equity, Preference capital, Optionally Convertible Debenture, Optionally Convertible Debt, etc.

5. MSME Receivable Finance Scheme: SIDBI operates the MSME Receivable Finance Scheme (RFS) for MSME sellers / eligible service providers in respect of sales & services rendered to purchaser companies. Under the Scheme, SIDBI fixes limits to well-performing purchaser companies and discounts usance bills of MSMEs / eligible service sector units supplying components, parts, subassemblies, services, etc. so that the MSME / service sector units realise their sale proceeds quickly. SIDBI also offers invoice discounting facilities to the MSME suppliers of purchaser companies.

6. Direct Retail Credit-In order to supplement and complement the efforts of banks/FIs in augmenting the flow of credit to MSME sector, SIDBI introduced various new products and modified the existing products to meet the diverse credit needs of the MSME sector. In order to serve the MSMEs better, with enhanced customer satisfaction, the Bank provides tailor-made products and services. Direct credit assistance is provided by way of, (a) Term Loan, (b) Working Capital through arrangement with IDBI Bank, (c) MSME Receivable Finance and (d) Non - Fund based facility.

7. Green Loan Scheme - The awareness about the environmental aspects among MSMEs has increased and the MSMEs have started adopting various measures in the areas of energy efficiency, waste recycling, waste treatment & disposal, ISO certifications, energy audit, Bureau of Energy Efficiency (BEE) star rating of their products, green rating, etc. for sustainability of their manufacturing facilities. To encourage small capital investments in environmentally sustainable and energy efficient manufacturing facilities / services, during FY 2010-11, a Green Loan Scheme was introduced for existing MSME customers of the Bank with simplified and faster credit delivery mechanism.

8. Support for Marketing Activities – The Bank supported 53 relevant exhibitions / seminars / events during the year benefiting more than 5000 MSME entrepreneurs, which include 3 international trade fairs. The state-of-the-art building of Karnataka State Small Scale Industries Association (KASSIA) at Bangalore, partly funded by SIDBI is also being used for various marketing related programmes for the MSMEs of the region.

9. Non-Fund based Services- The Bank also provides various non-fund based services like Letters of Credit (both foreign and inland), Guarantees, services for appraisal, loan



syndication, etc. arising out of niche requirements of MSMEs which need such support, in addition to services provided within the traditional banking framework. Summary of business under non-fund based facility during FY 2011-12 is provided in Table 2.

Table 2 : Non - Fund based Facility

Schemes	FY 2010-11		FY 2011-12	
	No.	Amount	No.	Amount
Foreign Letter of Credit	75	62.00	85	64.64
Inland Letter of Credit	93	3.36	18	.90
Guarantees	138	28.21	94	52.03
Total	306	93.57	197	117.57

Source : Annual Report of FY 2011-12, SIDBI

10. SIDBI as Nodal Agency for Government Schemes - In addition to its direct and indirect operations, SIDBI also plays a pivotal role in implementation of various schemes for MSME sector undertaken by the Government of India (GoI). SIDBI continued to play an important role as a nodal agency in the implementation of GoI schemes, viz. Credit Linked Capital Subsidy Scheme (CLCSS) [Ministry of MSME], Technology upgradation Fund Scheme for Textile Industry (TUFS) [Ministry of Textiles], Integrated Development of Leather Sector Scheme (IDLSS) [Ministry of Commerce & Industry] and Scheme of Technology Upgradation / Setting up / Modernisation / Expansion of Food Processing Industries (FPTUFS) [Ministry of Food Processing Industries]. During the year, capital subsidy claims of 638 eligible Micro and Small Enterprises (MSEs) directly assisted by SIDBI and amounting to Rs.43.86 crore were settled under CLCSS. Further, subsidy claims of 909 MSEs amounting to Rs. 53.29 crore in respect of co-opted Primary Lending Institutions were also settled. Since the launch of the Scheme in October 2000, capital subsidy claims of 9,324 units aggregating Rs. 463 crore (cumulative) were settled. Similarly under TUFS, subsidy claims (both interest incentive subsidy & capital / margin money subsidy) of 305 eligible textile units for SIDBI's directly assisted cases amounting to Rs. 24 crore and subsidy claims aggregating Rs. 14 crore were settled in respect of the co-opted PLIs for their assistance to MSEs. Since the launch of the TUFS in April 1999, capital subsidy and interest incentive claims for an amount of Rs. 636 crore (cumulative) have been settled. Under IDLSS, which



was launched in November 2005, cumulative claims of 1094 units aggregating Rs. 179 crore were settled including 139 units amounting to Rs. 22 crore during FY 2011-12. Under FPTUFS, subsequent to decentralization of the scheme from April 2007, 46 cases have been recommended for grant-in-aid amounting to Rs. 9.57 crore to the Ministry, against which subsidy amounting to Rs. 5.98 crore has been released to 26 units, assisted by SIDBI.

11. MSME Financing and Development Project (MSMEFDP) - SIDBI is implementing a multi-agency / multi-activity MSME Financing and Development Project (MSMEFDP). The Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency for the Project. The World Bank; Department for International Development (DFID) UK; Kreditanstalt für Wiederaufbau (KfW) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Germany are the international partners in the Project. The primary objective of the Project is to meet both the demand and supply side concerns of MSMEs through a judicious blend of financial and non – financial services. The progress of the Project has been quite noticeable as it has so far reached out to more than one lakh beneficiaries (direct / indirect) comprising MSMEs and stakeholders (including Banks / FIs, Business Membership Organisations (BMOs), etc. The Project has two major components: Credit Facility (CF) by World Bank (also includes Risk Sharing Facility component) and KfW and Technical Assistance (TA) by DFID, UK; KfW and GIZ, Germany.

12. Credit Information and Credit Rating Schemes - To strengthen the credit information system on MSMEs (for Credit Supplementation), the Project has supported Capacity Building (CB) of Credit Information Bureau (India) Ltd. (CIBIL), SME Rating Agency of India Ltd. (SMERA) and development of Credit Appraisal and Rating Tool (CART). CIBIL has been able to increase its members and MSME Database to over 714 (about 214 added during FY 2011-12) and 7.5 million (About 2.3 million added during FY 2011-12), respectively. The total number of Credit Information Reports generated has gone up over 24,000 per month which indicates its increasing efficacy in credit dispensation. Leveraging Project support, SMERA has been able to not only undertake experiments in its model but has evolved as a sustainable entity. Besides achieving high visibility among MSMEs, SMERA has enhanced its acceptability among MSMEs. In FY 2011-12, cumulatively, SMERA completed more than 15,000 ratings.

13. Address information asymmetry - Knowledge Series (MSME Credit Card, etc.), Policy Papers (Global Best Banking Practices in MSME Financing and Development,



Factoring, Skill Development, etc.), Toolkits (e.g. Walk-in-Kit for Corporatization of MSMEs, web based Startup-kit for budding entrepreneurs, How to link up MSMEs with Retail Chains) etc. were developed (overall 30+ and 11-12 during FY 2011-12) and disseminated. A robust knowledge bank has been developed on SIDBI website www.sidbi.in and project website www.msme FDP.net where tool kits, knowledge series and policy documents have been made freely accessible.

14. Support for Green Energy - The Bank has extended grant support to Integrated Association of MSME of India, Faridabad for installation of solar photo voltaic panels in its office premises to promote usage of green energy among MSMEs.

15. Computerised Information Centre- The Bank has also supported Rajasthan Stainless Steel Re-Rollers Association (RSSRA) for development of its website, setting up of a Computerised Information Centre in its office at Jodhpur for the benefit of member MSMEs.

CONCLUSION

The Small Industries Development Bank of India (SIDBI) is as an apex and the principal financial institution for promotion, financing and development of the Micro, Small and Medium Enterprises (MSMEs) sector and thus coordinates of the functions of the other institutions engaged in similar activities. The Small Industries Development Bank of India (SIDBI) provides direct and indirect finance to MSMEs through refinance assistance, resource support to institutions, receivable finance and bills financing, micro finance, term loan and working capital assistance. Further, the SIDBI extends resource support to various institutions engaged in the promotion and development of MSME sector. The bank provides resource support to financial intermediaries like SFCs, SIDCs, NBFCs, factoring companies, State Electricity Boards (SEBs) and other institutions having linkages to MSMEs. In the last we can conclude that the various schemes provided by the SIDBI helps the MSMEs in their development.

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